



APPROVED MINUTES
APPROVED 02-04-13
CITY OF SCOTTSDALE
AUDIT COMMITTEE

MONDAY, NOVEMBER 19, 2012

CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251

REGULAR MEETING

PRESENT: Councilwoman Suzanne Klapp, Chair
Councilman Robert Littlefield
Councilwoman Linda Milhaven

STAFF: Brent Stockwell, City Manager's Office
David Smith, City Treasurer
Joyce Gilbride, Finance & Accounting Division
Anna Henthorn, Finance & Accounting Division
Derek Earle, Public Works Division
Cathleen Davis, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor's Office

GUESTS: Irma Ashworth, CliftonLarsonAllen
Carter Smitherman, CliftonLarsonAllen

CALL TO ORDER

Chair Klapp called the meeting to order at 4:04 p.m.

A formal roll call confirmed the presence of Committee Members as noted above.

1. Approval of Minutes, Regular Meeting, September 17, 2012

COUNCILMAN LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE SEPTEMBER 17, 2012 REGULAR MEETING. COUNCILWOMAN MILHAVEN SECONDED THE MOTION, WHICH CARRIED BY A UNANIMOUS VOTE OF THREE (3) TO ZERO (0).

2. Discussion with CliftonLarsonAllen representatives regarding the City's Financial Compliance Audit for FY 2011/12

Mr. Carter Smitherman introduced Ms. Irma Ashworth of CliftonLarsonAllen. She reported that they have completed the financial audit for the City and component units, including the CFDs, the Municipal Property Corporation and the Scottsdale Preserve Authority. They have issued a clean, unqualified opinion.

Ms. Ashworth said City management was helpful and the auditors had no difficulties working with management. The auditors had no recommendations regarding the City's financial statements.

However, they had two recommendations regarding the Municipal Property Corporation which are considered significant deficiencies, relating to recording the June payment and on the receivable from the City of Scottsdale. Mr. Smitherman elaborated that these were accounting errors.

Ms. Ashworth summarized that there were no material misstatements to be brought to the Committee's attention.

3. Discussion and possible direction to staff regarding Audit Report No. 1301, E-Verify compliance

Ms. Cathleen Davis of the City Auditor's Office stated that this audit was conducted to comply with the State requirement that the City randomly verify the compliance of contractors and subcontractors with the Federal E-Verify program. They found that contractors are generally using the E-Verify program for workers providing services for the City. She noted two findings.

The E-Verify requirement is not included in the standard terms and conditions for a scope of work based contract. Also, the audit found that the E-Verify requirement was not referenced in any documents provided to one contractor although this is a requirement of State law. Because this contractor had not been given notice of the requirement, the auditors did not complete the planned testing of that company. The Purchasing Department has stated that the E-Verify requirement is included in the

purchase order standard terms and conditions. However, if City staff does not reference the separate purchase order standard terms and conditions, the State law requirement is not communicated to nor warranted by the vendor. Purchasing has indicated that they will insert the E-Verify language into the standard terms and conditions for the scope of work-based contracts.

The auditors also found that City contractors are generally using the E-Verify program for workers on City of Scottsdale contracts. Ten contractors were selected for testing. One did not provide E-Verify documentation for three temporary workers and one did not respond to the City's audit request. One City contract was found not to incorporate the E-Verify requirements, as just noted. The remaining seven vendors either had not hired employees for their contracts with the City after the law went into effect, or did provide the necessary documentation. Purchasing is following up with the City Attorney's Office on the contractor which refused to respond.

4. Discussion and possible direction to staff regarding Audit Report No. 1305, Fuel Costs and Controls

Ms. Joanna Munar of the City Auditor's Office reviewed the audit report on fuel costs and controls.

The audit found that fuel cost increases have driven the budget, as fuel use has not been reduced. During the past three fiscal years, the City has continued to consume approximately 1.3 million gallons of fuel annually. The fuel budget has grown from almost \$3 million in FY 2009/2010 to more than \$5 million in FY 2012/2013. Citywide fuel savings initiatives can be implemented and fuel use and cost information can be distributed so that users are better able to make cost-effective choices.

The ten percent fuel markup rate recovers more than the program's administrative costs and exacerbates fuel cost increases. Fleet Management charges fuel users the cost of fuel use plus a ten percent markup, which is used to cover administrative costs. However with rising fuel costs, this markup rate recovers about \$250,000 more each year than the actual administrative costs. Also Fleet Management's fuel budget forecasts incorporated a 15 percent fuel markup rate, which magnifies the negative budget impact of rising fuel costs. Changing the markup from a percentage of costs to a fixed amount per gallon would lessen this impact.

The auditors found that manual overrides of the automated fuelling system weaken internal controls over the trolley fuel transactions. The trolley operator's ability to manually override the City's automated fuelling system and instances of same day multiple fuelings leaves the City unable to verify whether City provided fuel is being used appropriately. The audit recommended Fleet Management ensure that the automated fueling system for the trolleys works properly, and they should remove the contractor's ability to override the system.

Chair Klapp asked Acting Executive Director of Public Works, Mr. Derek Earle, whether the manual override is being stopped immediately. Mr. Earle said the biggest problem was the override was needed for times when the automated equipment cannot detect the vehicle at the fuel pump. Since the system cannot be disabled, staff is monitoring its use closely. Also, repairs have been made to the automated system.

5. Discussion and Possible Direction to Staff direction to staff regarding Audit Follow-Ups, First Quarter FY 2012/2013 Report

Ms. Munar reviewed the report.

6. Discussion and Possible Direction to staff regarding 3rd Quarter Taxpayer Problem Resolution Officer Report

Ms. Davis presented this report. Taxpayer satisfaction remains high. One TPRO complaint was received during the quarter. After examining the file they did not find that the tax collector's actions were improper, abusive, inefficient, or caused undue hardship. Accordingly they advised the complainant of the appeal process. In response to a query from Chair Klapp, City Auditor Sharron Walker said the auditors do not directly handle the appeals.

City Treasurer David Smith advised that Mr. Phil Montalvo, Tax Audit Manager, has resigned. He will be missed.

7. Discussion and Possible Direction to staff regarding status of FY 2012/13 Audit Plan and related proposed meeting calendar

Ms. Walker reviewed the status report which shows that the department is slightly ahead of schedule.

8. Discussion and Possible Direction to staff regarding agenda items for next Audit Committee meeting (November 19, 2012)

Ms. Walker stated that the next meeting will be held on January 28, 2013. Staff will present a sunset review of the Historic Preservation Commission. The cash handling audit controls audit should be ready, as will the review of the WestWorld business operations. There will also be updates on the TPRO and audit follow-up reports.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:22 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.